

What is your reaction to the cigarette price cuts?



Peter Noorda
Gem State Distributors
Pocatello, ID

"I'm concerned about what it's going to do to our LIFO (Last In First Out). It'll have a tremendous financial impact on us. It's going to cut into our discounts greatly by at least 16 cents per carton. I think wholesalers will survive, but it's going to be tough."



Dennis Morgan
Associated Grocers of Maine
Gardiner, ME

"My first thought is that it's revolutionary. It's something that's long overdue. It's going to have a serious impact on smaller distributors and they're going to have to learn to diversify."



Phil Smaldino
Anchor Cigar & Candy Co.
Youngstown, OH

"I don't know if I'll be in business five years from now. I don't think wholesalers will go out of business, but I do think some tobacco companies may change their mind about these things."

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Distributors caught in price war

Open letter from R.J. Reynolds

In response to Philip Morris' announcements on Thursday about the continuation of price reductions on its premium brands and the consolidation of prices between its mid-level and low-end brands, R.J. Reynolds announced a similar price restructuring, and yesterday wrote an open letter to the members of the American Wholesale Marketers Association.

The letter, written by Larry Schreiber, vice president of trade development for Reynolds, reads as follows:

"The recent pricing action initiated by Philip Morris has had a negative impact on the profitability of our wholesalers, retailers, and competing manufacturers.

"For the first time in recent history there has

been an inordinate deflation in product costs.

"This is an unprecedented event in the industry which will cause wholesalers and manufacturers to re-evaluate traditional business practices.

"What the future holds at this point is unclear, and the resulting profitability of the industry will depend on how we carefully manage our way through uncharted waters."

Wholesalers on the convention floor were equally concerned about what the results of the new pricing structures would be, and unsure about the future.

Stanley Sanders, owner of Sanders Langsam Tobacco Co. in Long Island, NY, referred to the "price wars," as they've come to be called, as "a revolution in the wholesale tobacco

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industry."

"Every jobber out there is going to have to find out where his bottom line is, and how to recoup it after August 9th." Aug. 9 is the date the new pricing structures become effective.

"We're looking at an industry loss," Sanders said. "We have to look at our margins and our expenses, and how to increase our margins and decrease our expenses."

Others viewed the changes in a harsher light. "It'll hurt your sales volume, and it'll hurt your profit," said Ross Tutterow, corporate director of purchasing for The H.T. Hackney Co. in Johnson City, TN. "It will not be good for the industry in general."

Tutterow said cigarette manufacturers intend to credit wholesalers for the difference in prices on the product wholesalers already have in their warehouses. But the loss of profitability in the premium lines will change Hackney's emphasis, he said. "We're going to let our inventory run out," he admitted. "And we'll try to build our inventory on the low-end."

Darin Smith, sales and marketing representative for TVC Wholesale Inc. in Florence, AL, agreed. "They're going to cover your floor stock," he said. "So we're trying to let our inventory run down some. The retailer is going to have to manage his inventory better."

"Business is going to be slow for the next two months," he added.